MARKET ENTRY STRATEGY

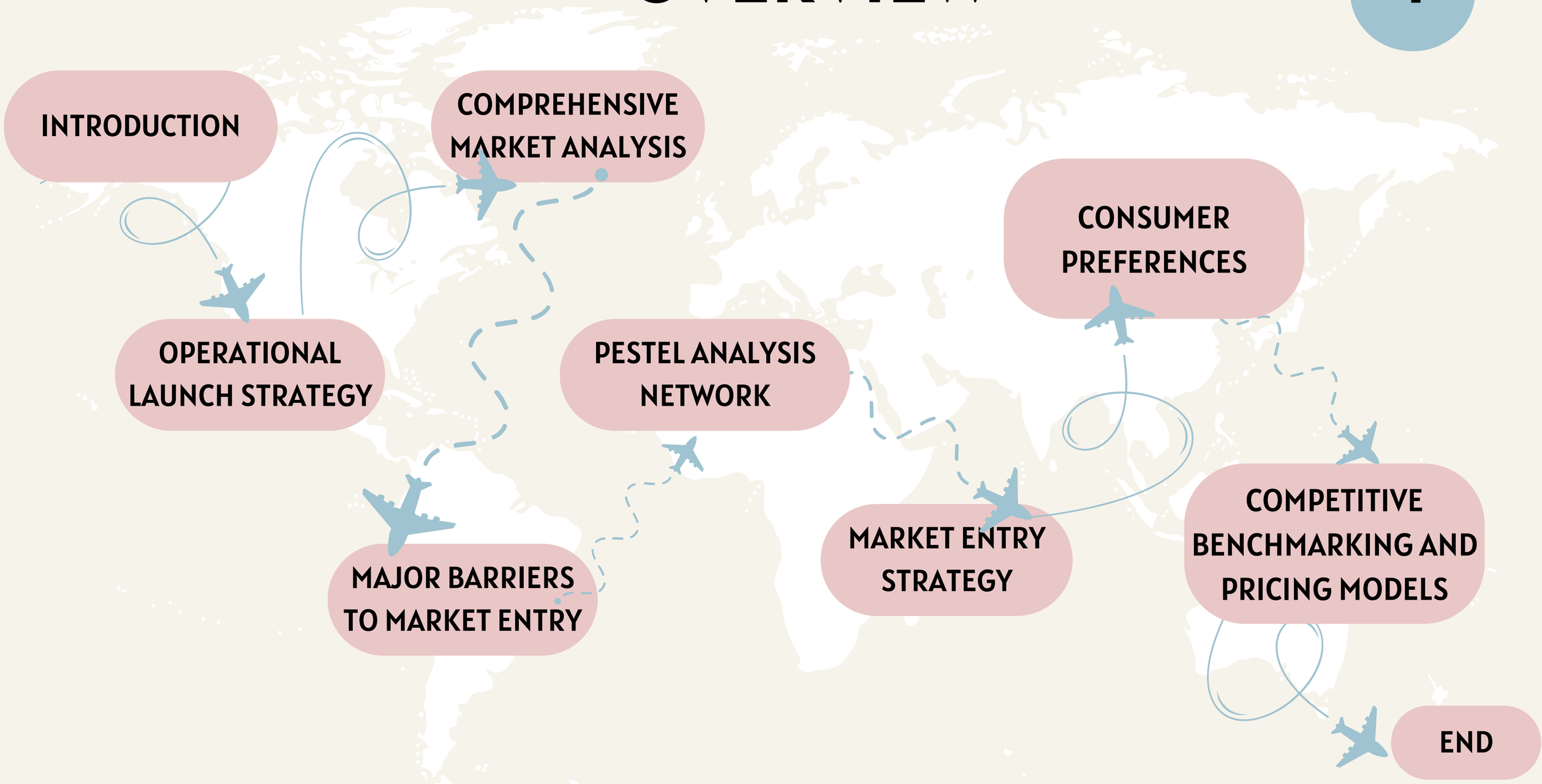
for a

European Airline

in

INDIA

OVERVIEW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INTRODUCTION

Our client, Albatross International, is a low-cost European airline company operating across most countries in Europe. Facing stagnant growth in Europe, they are exploring entry into the Indian market, aiming for long-term growth rather than immediate profit. The Indian domestic airline market, currently dominated by five to six major players with Indigo holding the largest market share, is growing at an annual rate of 20%.

OPERATIONAL LAUNCH STRATEGY

Since India is a price-sensitive market, Albatross International will need to offer competitive pricing to attract Indian customers. Starting with domestic transfers, the client can initiate operations in major cities such as Delhi, Mumbai, Bangalore, and Hyderabad. These cities serve as key hubs with the highest number of connecting flights, facilitating traffic flow and supporting the airline's growth strategy.

MARKET ANALYSIS

COMPREHENSIVE MARKET ANALYSIS

Guesstimates

- Current Market size: 50,000 crores
- Target share : 5% within the first five years
- Current Revenue = 5 Billion euros
- Current Revenue in rupees = 5x90x100 crores = 45,000 crores
- Estimated growth rate on overall revenue = 1-2%

Information provided

Major players in the Market :

- Indigo (60.6%)
- Air India
- Vistara
- SpiceJet

Growth rate of the Indian domestic airline market = 20%

COMPREHENSIVE MARKET ANALYSIS

Potential Revenue Estimation

Market Size that it can tap into = 0.05x50,000 = 2,500 crores

2,500 crores grows at a rate of 0.2x2500=500 crores a year

The growth rate = (500/45000) x 100= 1.11% which is in alignment with the estimated growth rate of 1-2% on the overall revenue. Hence, this market share meets our target growth rate in the Indian Market.

MAJOR BARRIERS TO MARKET ENTRY

Government Regulations

The Indian aviation sector is heavily regulated by various government bodies, primarily the Directorate General of Civil Aviation (DGCA) and the Ministry of Civil Aviation. These regulations cover a wide range of aspects, from safety standards to operational protocols

Key Aspects

- Safety and Operational Standards: The DGCA enforces strict safety and operational standards for airlines in India, covering aircraft maintenance, crew training, and operational procedures. Compliance requires substantial investment in training and infrastructure.
- Route Dispersal Guidelines (RDG):The Indian Government mandates airlines to operate a certain percentage of flights to less profitable remote areas to ensure balanced regional development. This can affect the profitability of new entrants focusing on high-traffic routes.
- Environmental Regulations: Airlines must adhere to environmental regulations on noise pollution and emissions, necessitating investments in newer, more efficient aircraft technologies.

MAJOR BARRIERS TO MARKET ENTRY

License Rules

Obtaining the necessary license to operate an airline in India is a complex and time-consuming process. The primary license requires is the Air Operator's Certificate (AOC) issued by the DGCA

Key Aspects

- Air Operator's Certificate (AOC) : The process of obtaining AOC involves detailed documentation, inspections and demonstration flights. This process can take several months to over a year depending on the complexity of operations.
- Security Clearances : Airlines must obtain security clearances for their operations which include background checks on key personnel and scrutiny of the airline's financial and operational plans.
- Infrastructure and Facilities : Airlines must demonstrate that they have additional infrastructure, such as maintenance facilities, ground handling operations, and trained personnel. This includes substantial upfront investment.

MAJOR BARRIERS TO MARKET ENTRY

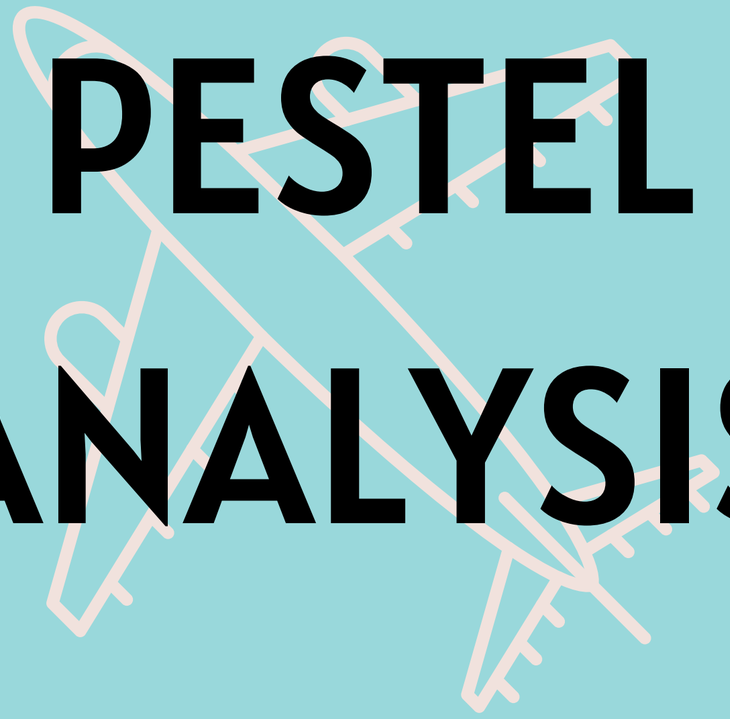
FDI Rules

Foreign Direct Investment (FDI) regulations in the Indian Aviation Sector are designed to control the level of foreign ownership and influence in domestic airlines

Key Aspects

- Ownership Limits : Foreign airlines are permitted to invest up to 49% in domestic airlines under the automatic route. Any investment about beyond 49% requires government approval and must comply with additional conditions.
- Effective Control and Management : Despite the FDI limits, the control and management of the airline must remain with Indian nationals. This means while the foreign investors can have significant ownership, strategic decisions, and day to day management must be under the control of Indian stakeholders.
- Impact on Joint Ventures : It is crucial to structure the partnership in a way that complies with the FDI regulations while ensuring effective cooperation and alignment of interests between foreign and Indian partners.

PESTEL ANALYSIS



POLITICAL FACTORS

NCAP 2016:

Promotes regional connectivity and offers financial incentives for underserved routes (UDAN scheme).

High ATF Taxes:

Significant impact on cost structure; state taxes vary and affect operations.

Route Dispersal Guidelines

Requires a percentage of flights on less profitable routes.

FDI Policies:

Allows up to 49% FDI in domestic airlines under the automatic route, facilitating joint ventures.

ECONOMIC FACTORS

Market Growth:

Growing at 20% per year; India is projected to become the third-largest aviation market by 2025.

Exchange Rates:

Currency volatility impacts costs and pricing strategies.

Economic Growth:

Rising GDP and disposable incomes support increased spending on air travel; growing middle class boosts demand for affordable air travel.

Tourism Growth:

Increasing domestic and international tourism boosts demand for air travel.

SOCIAL FACTORS

Demographic Trends:

India has a significant young population with a median age of around 28 years, leading to higher travel demand for education, employment, and leisure.

Urbanization:

Rapid urbanization is driving increased travel between major cities and regional hubs, enhancing the demand for efficient and affordable air travel.

Rising Middle Class:

The expanding middle class with rising disposable incomes is more inclined to spend on travel and leisure, creating a larger market for low-cost airlines.

Cultural Diversity:

Catering to diverse preferences and capitalizing on travel peaks during festivals and holidays.

TECHNOLOGICAL FACTORS

UDAN Scheme:

Regional Airport Development enhances regional connectivity and opens access to underserved routes.

Online Booking Systems:

Seamless integration with popular travel portals and user-friendly apps attract tech-savvy customers.

In-Flight Connectivity:

Wi-Fi and Entertainment improves passenger experience and provides a competitive edge.

Fuel-Efficient Aircraft:

Reduces operational costs and enhances environmental sustainability.

ENVIRONMENTAL FACTORS

Sustainability Initiatives:

Implementing carbon offset programs to mitigate the environmental impact of flights and appeal to eco-conscious travelers.

Regulatory Compliance:

Adhering to environmental regulations set by authorities like MoEFCC ensures compliance and avoids legal issues.

Climate Change Adaptation:

Developing strategies to manage climate-related disruptions, such as extreme weather events and seasonal variations.

CSR Initiatives:

Supporting local environmental projects enhances community relations and brand reputation.

LEGAL FACTORS

Aviation Regulations:

Compliance with DGCA and CAR guidelines ensures safety and operational standards are met.

Competition Laws:

Avoiding anti-competitive practices and adhering to Competition Commission of India (CCI) regulations ensures fair market practices.

Consumer Protection Laws:

Ensuring passenger rights through compliance with ticketing, refund, and flight disruption regulations.

Foreign Direct Investment:

Adhering to FDI regulations, including ownership caps and operational restrictions, facilitates market entry.

MARKET ENTRY STRATEGY

ENTERING THROUGH M&A

Suppose Albatross International buys Akasa Air.
The cost of acquisition is 1 billion euros
= 1x100x90 = 9000 crores

Guesstimate:

Investment	= 9000 crores
Cost of capital	= 8%
Profit annually	= 10%
Time period	= 10 years
Market share initially	=5%
Market Share post acquisition	= 9%

To determine the viability of market entry through NPV and payment period calculation:

Current market share = 0.09*50000
=4500 crores

Profit in year 1 = 0.1x4500 = 450 crores
Revenue after 20% growth = 4500 + 4500x0.2
= 5400 crores

Similarly, profit in year 2 = 540 crores
Revenue after 20% growth = 5400+0.2x5400
= 6480 crores

and so on

ENTERING THROUGH M&A

YEAR	1	2	3	4	5	6	7	8	9	10
PROFIT	450	540	648	777.6	933.12	1119.74	1343.69	1612.43	1934.92	2321.89
PRESENT VALUE	416.67	462.96	514.4	571.56	635.07	705.63	784.03	871.14	967.94	1075.48

NPV = Summation (profit/(1+cost of capital)^time period) - investment

Net Present Value = 7004.884 crores - 9000 crores = -1995.116 crores

ENTERING INDEPENDENTLY

It has a revenue of 45000 crores from the European market and we are assuming that it invests 9000 crores for entering the market independently

Guesstimate:

Investment	= 9000 crores
Cost of capital	= 8%
Profit annually	= 10%
Time period	= 10 years
Market share initially	=5%

To determine the viability of market entry through NPV and payment period calculation:

Current market share = 0.05*50000
=2500 crores

Profit in year 1 = 0.1x2500 = 250 crores
Revenue after 20% growth = 2500 + 2500x0.2
= 3000 crores

Similarly, profit in year 2 = 300 crores
Revenue after 20% growth = 3000+0.2x3000
= 3600 crores

and so on

ENTERING INDEPENDENTLY

YEAR	1	2	3	4	5	6	7	8	9	10
PROFIT	250	300	360	432	518.4	622.08	746.49	895.79	1074.95	1289.95
PRESENT VALUE	231.48	257.20	285.8	317.53	352.81	392.02	435.573	483.97	537.745	597.494

NPV = Summation (profit/(1+cost of capital)^time period) - investment

NPV = 3891.628 crores - 9000 crores = - 5108.372 crores

ENTERING THROUGH JV

Suppose Albatross International enters through a joint venture with Akasa Air

Guesstimate:

Investment	= 50% of 9000
	= 4500 crores
Cost of capital	= 8%
Profit	= 50% stakeholder of profits
Time period	= 10 years
Market share initially	=5%
Market Share post JV	= 9%

The profit generation will remain the same but the profit generated for our client will be 50% of the overall profit

Current market share	= 0.09*50000
	=4500 crores
Profit in year I	= 0.5*0.Ix4500
	= 225 crores
Revenue after 20% growth	= 4500 + 4500x0.2
	= 5400 crores

ENTERING THROUGH JV

YEAR	1	2	3	4	5	6	7	8	9	10
PROFIT GENERATED	450	540	648	777.6	933.12	1119.74	1343.69	1612.43	1934.92	2321.89
ALBATROSS' PROFIT	225	270	324	388.8	466.56	559.87	671.845	806.22	967.46	1160.945
PRESENT VALUE	208.34	231.48	257.20	285.8	317.53	352.81	392.02	435.57	483.97	537.74

NPV = Summation (profit/(1+cost of capital)^time period) - investment

Net Present Value = 3502.463 crores - 4500 crores = -997.537 crores

MARKET ENTRY STRATEGY

MARKET ENTRY STRATEGY	PROS	CONS	COST	CONTROL	TIME TO MARKET
On their own	1. Full control over operations and brand consistency 2. Direct management of all aspects of business	1. High initial investment and operational costs 2. Regulatory hurdles and longer time to establish market	High	Full	Long
Through M&A	1. Immediate market entry and established operation 2. Access to existing customer base and market share	1. High acquisition cost 2. Potential challenges in integrating operations and company cultures	High	High	Short
Through JV	1. Shared financial risk and investment 2. Leverage local partner's market knowledge and regulatory expertise	1. Shared profits and potential conflicts in management 2. Requires alignment of strategies and objectives	Moderate	Shared	Medium

MARKET ENTRY STRATEGY

Therefore entering the market through Joint Venture is recommended as it offers optimal balance of cost, control and time to market. This approach allows the client to leverage the local expertise of a partner while sharing the financial burdens and risks associated with market entry.

COMSUMER PREFERENCES AND COMPETITIVE BENCHMARKING

CONSUMER PREFERENCES

Price Sensitivity:

- Competitive pricing and attractive deals.
- Value for money with bundled services.

Loyalty Programs:

- Reward frequent travelers with points and discounts.
- Partner with other service providers for bundled deals.

In-Flight Experience:

- High standards of cabin cleanliness and comfortable seating.
- Diverse meal options, including vegetarian and regional specialties.

Route Preferences:

- Focus on popular routes between major cities and regional hubs.
- Explore underserved routes and regional connectivity.

CONSUMER PREFERENCES

Promotional Strategies:

- Special offers during festivals and holiday seasons.
- Effective digital marketing and social media engagement.

Safety and Hygiene:

- Robust health and safety measures post-pandemic.
- Strong safety record and adherence to standards.

Punctuality & Reliability:

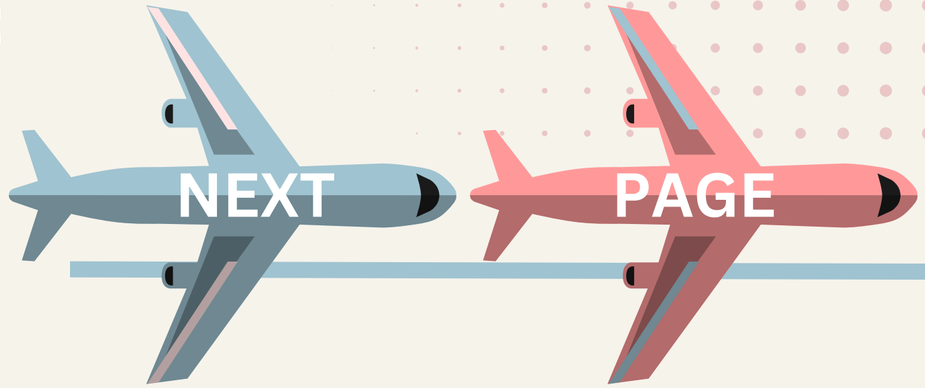
- Emphasis on on-time performance.
- Clear communication for any disruptions.

Customer Service:

- Responsive and efficient support in multiple languages.
- Personalized communication and services.

COMPETITIVE PRICING MODELS

Given the price sensitivity of the Indian market, it is crucial to design a pricing model that not only attracts budget-conscious travelers but also ensures profitability. Here's a detailed competitive pricing model proposal, benchmarked against existing low-cost carriers (LCCs) in India:



Indigo:

- Base Fares: Known for competitive base fares and efficient cost management.
- Unbundled Services: Charges for add-ons like meals, seat selection, and baggage.
- Dynamic Pricing: Uses advanced algorithms for real-time pricing adjustments.
- Promotions: Regular discounts, festive offers, and early bird discounts.

Air India:

- Base Fares: Higher base fares with inclusive services like meals, extra baggage, and seat selection.
- Dynamic Pricing: Adjusts fares based on demand, competition, and booking lead times, including seasonal price changes.
- Class-Based Pricing: Various fare classes in economy and business with options for refundable and non-refundable tickets.
- Promotions: Offers promotional fares and sales tied to specific routes and dates.

PROPOSED PRICING MODELS

Competitive Base Fares:

We can match or slightly undercut the base fares of competitors like Indigo and Air India to attract price-sensitive customers

Dynamic Pricing:

a. Use algorithms to adjust fares based on demand, booking patterns, and competitor pricing
b. Increase fares during peak times
c. Offer significant discounts on routes less travelled, and during low demand

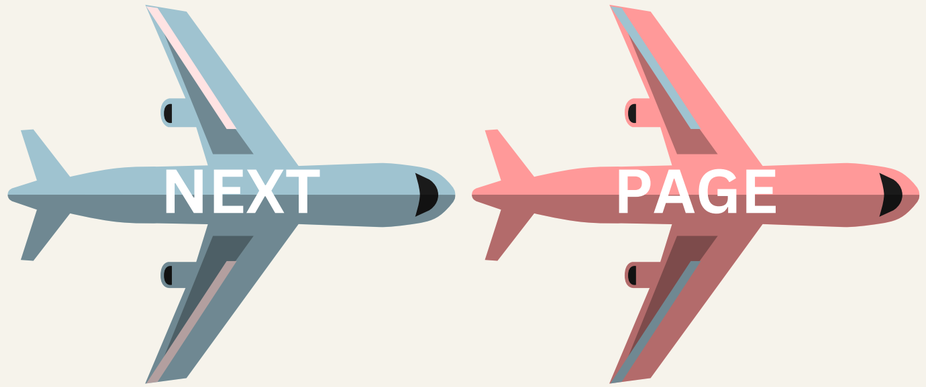
Unbundled Services

a. Base Fare → includes the seat and one small carry-on cabin baggage
b. Add-on Charges
→Check-in Bag : 500/- for one bag of 15 kgs
→Meals : 300/- per meal
→Seat selection : 200/- for regular and 500/- for extra legroom
→Priority Boarding : 400/-
c. Rationale → allowing passengers to customize their travel experience and pay only for the services they need, maintaining a low base fare

PROPOSED PRICING MODELS

Loyalty Programs:

a. Frequent Flyer Points → earn points for each flights, redeemable for discounts, free flights and upgrades
b. Partnerships → collaborate with hotels, car rentals and other service providers for joint promotions



Tiered Pricing Options:

a. Basic → Lowest fare, includes seat and cabin baggage
b. Standard → Slightly higher fare, includes seat, carry-on and one check-in bag
c. Premium → Highest fare, includes seat, carry-on, check-in bag, meal, priority boarding

TIERED PRICING

FARE TYPE	BASE FARE	CHECK-IN BAGGAGE	MEAL	SEAT SELECTION	PRIORITY BOARDING	TOTAL FARE
Basic	2400	-	-	-	-	2400
Standard	2400	500	-	-	-	2900
Premium	2400	500	300	200	400	3800

THANK YOU

Consulting and Analytics Club, IIT Guwahati

Meet the Team

Team Member I

Yoshita Banerjee
BTech. in Chemical Engineering
220107098
IIT Guwahati

Team Member II

Tetakali Sandeep Charlie
BTech. in Civil Engineering
220104101
IIT Guwahati

Team Member III

Yerramsetti Divya Sahiti
BTech. in Civil Engineering
220104114
IIT Guwahati

Team Member IV

Hemal Vadaliya
BTech. in Chemical Engineering
220107044
IIT Guwahati